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Remarks of James E. Denny before the
Study Group on Legal Remedies
Commission on Government Procurement
February 17, 1971
Washington, D.C.

My name is James Denny and I am a Patent Attorney with the Office of General Counsel, National Aeronautics and Space Administration. I have been involved in the consideration of privately-owned patent rights in the government procurement process for over ten years, within three different government agencies, and from both an operations and a policy point-of-view. My purpose in appearing before this Study Group is to place before the Commission the present legal and policy considerations given to privately-owned patents during the procurement process, and the legal remedies presently available to patent owners whose patent rights have been used by, or on behalf of, the United States Government without authority. I would also like to review several recommendations that have been made in this area, and to suggest a series of recommendations which I, personally, believe would equitably balance the interests of the patent owner, the procuring government agency, and the general public.

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Remedies Presently Available

It may be advantageous to first review how privately-owned patents may be considered during the procurement process in order to avoid government liability for patent infringement. When an agency is preparing to procure a patented item or service, and it comes to their attention that the procurement will infringe privately-owned U.S. patent rights, one obvious solution is to negotiate the procurement with the patent owner. Needless to say, this is the solution most preferred by patent owners, but it is also a solution which causes some problems with the concept of maximum competition in government procurement. On balance, however, I believe that it would be advantageous if a government agency, although not required, would have the flexibility to negotiate a procurement with a patent owner if, taking all circumstances into consideration, it appeared that such action was in the best interest of the public and the procuring agency.

This was the very position government agencies were in prior to 1958. The Comptroller General had stated his approval of this position in several decisions. For example, in his decision of January 10, 1944, to the Switlik Parachute Company,^{1/}

he considered it to be "sound practice" for an agency to consider infringement liability in awarding a contract, and that a bid submitted by a patent owner, although not the lowest bid, may be the most advantageous to the United States. This policy had little effect on the concept of competitive bidding because it was only applicable where it was known, in advance, that (1) a valid patent existed, (2) the procurement would infringe this patent, and (3) either the patent owner or a licensee was interested in bidding on the procurement. And even where all of these conditions were met, the agency still had full discretion to determine the bid or proposal most advantageous to the United States, price and other factors considered. Accordingly, if the price submitted by the patent owner was way out-of-line, the low bidder could be selected. This policy had the advantages of providing support and respect to the United States patent system, avoiding future government liability for patent infringement, and providing a slight advantage in the procurement process to those who had invested in research and development in areas which were found to be of interest to the Government.

This policy was changed, however, by a series of decisions by the Comptroller General beginning with the Herbert Cooper decision in 1958.^{2/} The policy change was based primarily on the fact that (1) Section 1498 of Title 28, United States Code, provided a remedy to a patent owner and (2) as infringement and liability therefor are speculative, they are not proper considerations to be used in evaluating bids or proposals. Under this policy, therefore, we have a situation where those who have invested in research and development in areas of interest to the United States Government and who utilized the United States patent system to protect the inventive results of this research, and those who had respected these rights by acquiring licenses to practice patented inventions, found themselves at a disadvantage in competing for contracts with the same Government which issued the patent right. The owner can be expected to have a higher price in order to recoup his research and development investment. The licensee must add to his costs the royalties that will be paid to the patent owner. All other considerations being equal, under the present policy, it will be the patent infringer who obtains the contract, the much-needed business, and the profit -- while the patent owner obtains the right to sue the Government.

In an attempt to partially alleviate this situation, the National Aeronautics and Space Administration developed a policy called the "Preprocurement License Policy." This policy was designed to allow NASA to enter into a patent license agreement, prior to the contract award, where certain very strict conditions are met. Under this policy, the Government's infringement liability would no longer be a matter of speculation because it would be defined in the license agreement. The amount of royalties payable under the agreement would be added to the bid or proposal price of any unlicensed bidder, but not to the bid or proposal price of the patent owner or his licensees. With the bids or proposals so adjusted, the award would be given to the low bidder. If this happened to be the patent owner or one of his licensees, no infringing liability would occur. On the other hand, if the low bidder was unlicensed, then the patent owner would receive the royalties due him under the license agreement. This policy has the advantages of respecting patent rights during the procurement process, placing the patent owner and his licensees on at least an even basis with an infringing supplier, and eliminating future disputes concerning infringement liability where infringing suppliers are selected.

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This new policy was considered as having only limited utility because NASA required all of the following conditions to be met prior to applying the policy:

1. the patent owner must call the patent involved to NASA's attention and identify the proposed procurement which he alleges would infringe his patent;
2. NASA must determine that the patent will, in fact, be infringed by the proposed procurement;
3. the statutory presumption of patent validity must be strengthened by a court decision or by the fact that the patent is respected commercially;
4. the patent owner must be willing to enter into a standard license agreement prior to the award of the contract on a reasonable royalty basis; and
5. NASA must determine that all of the above can be accomplished without unduly delaying the procurement.

NASA undertook this policy on an experimental basis in 1966 with the approval of the Comptroller General.^{3/} As we anticipated, limited use was made of the policy because of the R&D nature of NASA's procurement which affords little opportunity to make advance determinations of patent infringement.

^{3/} B-136916 (Sept. 12, 1966) 46 Comp. Gen. 206

However, the experience that was gained indicated that there were a few situations where the policy could be useful and that application of the policy did not create substantial problems. After making minor modifications, the policy was permanently adopted by NASA,^{4/} again with the approval of the Comptroller General.^{5/}

In reviewing government policy for considering patents in the procurement process, some mention should be made of the patent indemnity clause. This clause, used extensively by the Department of Defense in situations calling for formally advertised procurements (as opposed to R&D contracts), provides that the contractor will reimburse the Government for patent infringement liability resulting from contract performance. It has been suggested that the use of this clause provides an advantage for patent owners because the patent owner does not have to include a contingency cost for patent infringement in his bid or proposal. This is true, of course, only in regard to the patent owner's own patents, but not with respect to patents owned by others which may cover any and every phase of the item or system to be supplied. In addition, there is little

^{4/} Section 9.102, NASA Procurement Regulations

^{5/} B-136916 (May 28, 1970)

evidence that would show that bidders on government contracts either do or do not include contingency costs for patent infringement liability. To include such a cost in highly competitive procurement situations might be questionable in view of the well-known inability or unwillingness of the Government to enforce its rights under an indemnity clause.

After the procurement process, that is, after the contract has been awarded to someone other than the patent owner or one of his licensees, the patent owner always has the remedy of a suit for unauthorized use of his patented invention in the United States Court of Claims under 28 U.S.C. 1498(a). This statute has been construed as giving the Government the right to use any United States patent under its power and eminent domain -- leaving the patent owner with a suit against the Government for reasonable compensation as his exclusive and entire remedy. The statute applies whether the infringement is committed directly by the Government or indirectly by a government contractor with the authorization or consent of the Government. The patent owner has no injunctive remedy as he would against a private infringer. Although there are other statutes which permit patent owners to sue the Government in

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certain limited situations,^{6/} 28 U.S.C. 1498(a) is the patent owner's primary remedy in the federal courts. In many instances, a remedy of a suit against the Government for "reasonable compensation" -- normally considered to be a reasonable royalty -- is not an adequate remedy. Such suits are expensive and time-consuming, and may be beyond the resources of many small businesses or may cost more than the infringement liability would be worth. Also, many companies do not avail themselves of this remedy, as they are reluctant to sue the Government which they consider one of their best customers.

A complementary remedy for patent infringement is attempting to settle the infringement liability administratively with those agencies which have the authority to enter into settlement or license agreements. The Department of Defense, the Atomic Energy Commission, and the National Aeronautics and Space Administration have general authorization to settle claims administratively;⁷ all government agencies have settlement authorization in certain types of situations;⁸ and some agencies have

^{6/} By way of example, for infringement resulting from assistance to other countries, 22 U.S.C. 2356; for damages for use of patent applications placed under secrecy order, 35 U.S.C. 183; for infringement by TVA, 16 U.S.C. 831 (r).

^{7/} 10 U.S.C. 2386 for DOD; 42 U.S.C. 2201(g) for AEC; 42 U.S.C. 2473(b)(3) for NASA.

^{8/} Examples include 22 U.S.C. 2356 and 35 U.S.C. 183

authorization in relation to certain Government programs.⁹ In general, administrative settlement provides a more inexpensive, informal, and sometimes more rapid remedy for the patent owner than is obtainable in the federal courts.

Solutions Previously Recommended

In recent years, there have been numerous partial and reportedly total solutions to the problem of considering patents during the procurement process, or for providing remedies for the patent owner in cases of infringement. Most of these have been in the form of proposed legislation submitted to Congress in the form of a bill. One of the most drastic recommendations was a proposal to amend 28 U.S.C. 1498(a) to make this section applicable only upon a determination by the Secretary of Defense that the national security of the United States required the unauthorized use or manufacture of a specifically identified patented invention. This proposal was contained in the Williams Bill, S. 1047, introduced in the first session of the 89th Congress in 1965.¹⁰ Senator McClellan's Subcommittee on Patents, Trademarks and Copyrights, Committee on the Judiciary, held hearings

^{9/} Examples include 22 U.S.C. 2356 and 35 U.S.C. 183.

^{10/} The identical bill was introduced by Senator Williams in the first session of the 90th Congress (1967) as S. 731; also by Congressman Roudebush of Indiana in the House during the 87th, 88th and 89th Congresses (HR 150, 89th Cong.) In the 89th Congress, 16 similar bills were introduced into the House.

on this as well as several other bills directed generally to government patent policy in 1965. The primary support for this Bill and the reason for its submission to Congress was due to the fact that the Department of Defense and the Veterans Administration had purchased large quantities of prescription drugs from unlicensed foreign pharmaceutical companies. The United States pharmaceutical industry suggested and supported this type of legislation in an attempt to prevent further procurements of this sort.

Although many persons supported the overall purpose of this Bill in attempting to limit foreign procurements of drugs patented in the United States, the language of the Williams Bill was much too broad and did not effectively accomplish the result it was attempting to achieve. In the first place, the Bill presumes that patent infringement can be predicted in advance so that it can be either approved or disapproved by appropriate government officials. This, of course, is not the case, as most infringements caused by government activities are not discovered until after the fact. In addition, the language of the Williams Bill would effectively eliminate all authority of government agencies to infringe patents and, as a result, would permit

patent owners to bring suits for injunctive relief directly against government contractors whenever the Secretary of Defense did not certify that utilization of the particular invention was required in the national security. And finally, in revoking the authority of the Government to utilize patented inventions, this Bill similarly would revoke the jurisdictional authority of the Court of Claims to award compensation for government use of patented inventions. As a result, the patent owner's only remedy would be against either the government contractor or against the government employee as an individual. Accordingly, the Williams Bill received only limited support from industry and no support whatsoever from within the Government.

Other suggestions for the amendment of 28 U.S.C. 1498 (a) have not been so drastic, and would merely provide patent owners the alternative of suing the Government in the Court of Claims or suing the government contractor for "reasonable compensation and/or damages" in the United States District Courts. An example of this type of recommendation is HR 5182 submitted by Congressman Corman in the first session of the 91st Congress in January 1969. The effect of this type of legislation would have far less devastating effect on the government procurement process

than would the Williams Bill discussed above. The Department of Defense, in testimony before Congress,¹¹ has provided support for legislation of this general type, but would allow suit against the government contractor only when the contractor has indemnified the Government and has refused to settle a claim which the Government believes to have merit.

The Atomic Energy Commission has attempted yet another approach to allow the patent owner direct action against the government contractor for patent infringement. 28 U.S.C. 1498(a) authorizes infringement by a government contractor only when such action has been performed with the "authorization or consent" of the Government. Accordingly, the Atomic Energy Commission in one case attempted to prevent the application of 28 U.S.C. 1498(a) by including in the contract a clause which specifically withheld the Government's authorization or consent to use the particular patents involved. The Comptroller General, however, stated that specifically withholding the Government's authorization and consent when the Commission intended to accept articles which may embody the patented inventions or which may be made

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Hearings on S. 1047 before the Subcommittee on Patents, Trademarks and Copyrights, Senate Subcommittee on the Judiciary, 89th Cong., 1st Sess. at 71.

with the patented processes was contrary to the legislative intent and the prior case law which brought about the insertion of the phrase "authorization or consent" in 28 U.S.C. 1498.¹²

Representative Morris of New Mexico proposed what I believe to be the most direct and useful approach to considering patents in the procurement process in H.R. 10022, introduced in the first session of the 89th Congress in July 1965. Basically, this Bill would amend the Federal Property and Administrative Services Act and the Armed Services Procurement Act to permit an agency to negotiate with a patent owner or his licensee in the event that the agency head determines that a valid infringement claim would likely result if the purchase was made from an infringing supplier. The effect of this proposed amendment would be to place the agencies in the exact position that they were in prior to the Comptroller General's 1958 Herbert Cooper decision. This proposal would appear to have substantial support from industry and from many government agencies.

There were some who believed that such a proposal would be sufficiently broad as to virtually eliminate competition in a substantial number of procurements. This would not be the case,

however, as the amendment did not require an agency to negotiate in such circumstances, but merely permit it. This authority to negotiate would not receive wide application because, as previously stated, most infringements are not discovered until after the fact, and negotiations would only be considered (1) if a determination could be made before the procurement that performance under the proposed contract would result in an infringement of a valid patent, and (2) where the patent owner or one of his licensees were among the bidders or proposers.

Perhaps because of the lack of wide support to his suggestion set forth in H.R. 10022, Representative Morris suggested a different approach in the first session of the 90th Congress in H.R. 2898 (January 1967). This proposal suggested amending the Federal Property and Administrative Services Act and the Armed Services Procurement Act in a manner that would provide for a procedure basically the same as NASA's Preprocurement Licensing Policy. The Bill provided for entering into a licensing agreement prior to award of a contract, and the consideration of the royalties payable under the agreement in determining which bid or offer would be the most advantageous to the United States, price and other factors considered.

Although hearings were not held on either of the Morris Bills, it is my understanding that all government agencies were requested to comment on both these Bills by the House Committee on Government Operations. I know that NASA supported both Bills, but the opinions of the various government agencies, to my knowledge, have not been published. For further information in this regard, I would assume that inquiry could be made to the Office of Budget and Management.

Senator Saltonstall suggested a different approach by providing wider authority to the government agencies to administratively settle infringement claims, rather than expanding the Government's authority to consider patents at the time of procurement. This proposal was made in S. 789, introduced in the first session of the 89th Congress (April 1965). This Bill was primarily intended to recommend a government-wide patent policy but included in Section 9 thereof authority for the head of each government agency to administratively settle patent infringement claims. The general concept of providing authority to all agencies to administratively settle infringement claims received widespread support. Under the Saltonstall Bill, however, the agency determination was to be made under the formal requirements of the Administrative Procedures Act from which an appeal could be taken to

the U.S. Circuit Courts of Appeals. On this point, there was diversity of opinion, and at least two agencies (NASA and the Department of Defense) specifically recommended against such formality in the administrative consideration of patent infringement.¹³

An alternative approach to providing all agencies with authority to administratively settle patent infringement claims has been recommended several times by many organizations. In 1960, when 28 U.S.C. 1498 was amended to provide for suits against the United States Government for copyright infringement by or on behalf of the United States (28 U.S.C. 1498(b)), language was inserted that permitted the head of each government department or agency to administratively settle the allegation of infringement prior to the time that suit was filed in the Court of Claims. It would appear to be a simple matter to make this type of amendment to paragraph (a) of 28 U.S.C. 1498, thereby permitting all agencies to settle patent infringement claims as well.

¹³/ Hearings on S. 789, S. 1809 and S. 1899 before the Subcommittee on Patents, Trademarks and Copyrights, Senate Committee on the Judiciary, 89th Cong., 1st Sess., Part I at 75; and Hearings on S. 1047 at 14.

Multiple Solutions Necessary

I know that it is the stated policy of the National Aeronautics and Space Administration to encourage the private sector or our economy to invest in research and development activities in areas of specific interest to NASA. I believe that this is also the policy of the Department of Defense, and I would assume it to be the policy of most other government agencies as well. If this is true, then it would appear incumbent upon the Government to design its policies regarding consideration of patent rights in the procurement process such that it would foster private industry to present to the Government the results of their most recent, privately developed technology. Accordingly, whenever possible, privately developed patent rights should be favorably considered in the procurement process and the owners of such rights should be placed in an advantageous position, insofar as it is possible to do so in consideration with other procurement policies -- particularly the policy of obtaining maximum competition in government procurement.

I believe, therefore, that the concept set forth by Representative Morris in H.R. 10022 should be accepted and our procurement laws amended accordingly. This proposed amendment

does not require negotiations with a patent owner, but merely permits an agency to enter into such negotiations in appropriate circumstances. Where, for example, the patent owner's bid is not substantially more than that of an infringing bidder, where future patent infringing liability can be eliminated and, because of his prior research where the patent owner will be in the best position to supply the item and proprietary technical information concerning it, negotiations would appear to be in the best public interest. On the other hand, such negotiating authority must not be required, so as to permit patent owners complete control over government procurement of patented items, and to charge prices which may have no relationship to a reasonable profit or royalty.

Also, there will be highly competitive situations where both the patent owner and one or more of his licensees under the patent will be available bidders. In such situations, it would appear that a procedure on the order of NASA's Preprocurement License Policy would be the best overall method to use to maintain competition, while at the same time, give consideration to the patent rights involved. Accordingly, I would suggest that the second Morris Bill, H.R. 2898, is complementary to,

and not a substitution for, H.R. 10022. These two Bills would provide the government agencies with adequate flexibility to consider patent rights during the procurement process.

In addition, it is recommended that each government agency have full authority to consider and administratively settle claims of patent infringement before suit is brought against the Government. This can be most easily accomplished by amending 28 U.S.C. 1498(a) to give the agency this authority in the same manner as paragraph (b) of this statute provides agencies with the authority to settle for copyright infringement.

And finally, for complete flexibility, I would recommend that the agencies be given some authority for permitting a patent owner to proceed directly against the infringing contractor where the agency believes that this is in the best interest of the Government. There are situations, for example, where large-scale, continuing procurements are made of items covered by valid patents which are respected throughout the majority of industry. Some companies, however, will refuse to respect such patent rights when they are working under government contracts because they cannot be charged directly with infringement. In such situations, it would be advantageous to specifically withhold the Government's authorization and consent to infringe the specific patents involved. Accordingly, I would

suggest that 28 U.S.C. 1498(a) be amended to make it clear that government agencies may specifically withhold authorization and consent through appropriate contract clauses.

With the combination of authorizations suggested above, I believe that the agencies will then have a sufficiently diverse set of tools which will permit them to react in any particular contracting situation in a manner most likely to obtain an equitable balance between the interests of the patent owner, the interests of the agencies involved, and the interests of the general public in maintaining an effective government procurement process.

I would like to add just two additional thoughts. The first is that although all of my comments above have been directed to privately-owned patent rights, for the most part, they are equally applicable to privately-owned and privately-developed copyrights and proprietary data. In this regard, therefore, I would suggest that the agencies be given the same range of authorization whenever these types of intellectual property are involved. Finally, most of the comments made in this presentation are covered in greater detail and are better documented in an article entitled, "Patent Infringements in Government Procurement: A Remedy Without a Right?" which appeared

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in the Notre Dame Lawyer, Volume 42, No. 1, October 1966.

This article was authored by Mr. Gerald J. Mossinghoff,
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